

Message Text

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ACTION AF-06

INFO OCT-01 ISO-00 AID-05 EB-07 COME-00 TRSE-00 AGR-10

FRB-01 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03 NSAE-00

NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15 /086 W

----- 053123

R 150904Z JAN 76Y

FM AMEMBASSY ADDIS ABABA

TO SECSTATE WASHDC 7745

INFO AMCONGEN ASMARA

AMEMBASSY NAIROBI

UNCLAS ADDIS ABABA 0531

DEPT ALSO FOR AID/W

E.O. 11652: N/A

TAGS: EAGR EFIN ET

SUBJECT: ETHIOPIAN GOVERNMENT ISSUE AGRICULTURAL TAX PROCLAMATION

1. THE EPMG ISSUED A PROCLAMATION JANUARY 3 REFORMING AGRICULTURAL TAXES AND LAND USE FEES. ALL EXISTING AGRICULTURAL TAXES - LAND, HEALTH, EDUCATION, AND AGRICULTURAL INCOME TAXES- WERE REPEALED. IN ADDITION, "OTHER TAXES LEVIED BY TRADITION" - A REFERENCE TO PEASANT PAYMENTS TO LANDLORDS - WERE FORMALLY REPEALED ALTHOUGH RURAL LAND NATIONALIZATION HAD EFFECTIVELY ELIMINATED SUCH PAYMENTS IN EARLY 1975.

2. EPMG PROCLAMATION ESTABLISHES TWO TAXES - LAND USE FEES AND AGRICULTURAL INCOME TAX. BOTH TAXES ARE EFFECTIVE FOR THE CURRENT CROP YEAR. LAND USE FEES ARE AS FOLLOWS:

PRIVATE FARMER WHO IS MEMBER OF AN AGRICULTURE COMMUNE SHALL PAY ETH.\$3.00 PER YEAR, IRRESPECTIVE OF SIZE OF HOLDING; FARMER WHO IS NOT MEMBER OF SUCH GROUP SHALL PAY ETH.\$4.00 PER YEAR, IRRESPECTIVE OF SIZE OF HOLDING; COMMERCIAL FARMS UNDER STATE CONTROL SHALL PAY ETH.\$2.00 PER HECTARE PER YEAR.

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3. AGRICULTURAL INCOME TAX IS PAYABLE ON ALL INCOME DERIVED FROM AGRICULTURAL ACTIVITY. TAX IS HEAVILY PROGRESSIVE AS EVIDENCED IN TABLE BELOW:

INCOME	TAX
ETH.\$0-600	ETH.\$3.00
OVER 600-900	4.50
OVER 900-1200	6.00
OVER 1200-3000	10 PER CENT
OVER 3000-6000	15 PER CENT
OVER 6000-9000	# 20 PER CENT
OVER 9000-12000	25 PER CENT
OVER 12000-15000	30 PER CENT
OVER 15000-18000	35 PER CENT
OVER 18000-21000	40 PER CENT
OVER 21000-27000	50 PER CENT
OVER 27000-33000	60 PER CENT
OVER 33000	70 PER CENT

4. RESPONSIBILITY FOR COLLECTION OF TAXES DUE ON EARNINGS UP TO ETH.\$1,200 WILL REST WITH FARMERS' ASSOCIATIONS. LARGER TAX BILLS DUE ON INCOME ABOVE ETH.\$1,200 WILL BE COLLECTED BY INLAND REVENUE DEPARTMENT OF MINISTRY OF FINANCE. FARMERS' ASSOCIATIONS WILL RECEIVE 2 PER CENT OF ALL TAXES THEY COLLECT. FARMERS WITH AGRICULTURAL INCOMES OF OVER ETH.\$6000 ARE REQUIRED TO KEEP ACCOUNT BOOKS.

5. REGIONAL (WOREDA) TAX APPEAL COMMITTEES WILL BE ESTABLISHED TO ADJUDICATE DISPUTES OVER TAX LIABILITIES. FURTHER APPEAL PROCEDURES ARE ALSO PROVIDED FOR IN PROCLAMATION.

6. COMMENT: STATED PURPOSES OF CHANGE IN AGRICULTURAL TAX SYSTEM ARE TO REDUCE TAX BURDEN ON FARMERS, INCREASE PRODUCTION, AND IMPROVE EFFICIENCY OF TAX COLLECTION. GIVEN THE LOW INCOME TAX RATES FOR LOW INCOME FARMERS, THE LEVEL OF TAX OBLIGATION COMPARED TO PAST PAYMENTS OF TAXES AND LANDLORD'S SHARE OF CROP WILL BE MUCH LOWER FOR SMALL FORMER TENANT FARMERS. FOR EXAMPLE, UNDER PREVIOUS AGRICULTURAL INCOME TAX LAW, FARMER WITH INCOME OF ETH\$600 PER YEAR WOULD HAVE

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PAID \$18 IN INCOME TAX. UNDER THE NEW SCHEDULE HE WILL PAY ONLY \$3. OTHER MISCELLANEOUS TAXES HAVE ALSO BEEN REMOVED AND EX-TENANT FARMERS NO LONGER ARE REQUIRED TO PAY 30 TO 50 PER CENT OF CROP TO LANDLORD. THUS NEW SYSTEM REPRESENTS CLEAR IMPROVEMENT IN TREATMENT FOR PEASANT FARMERS WHO DOMINATE ETHIOPIAN AGRICULTURAL SYSTEM. PREVIOUSLY, THE UPPER LIMIT ON AGRICULTURAL INCOME TAX WAS 20 PERCENT. NEW TAX IS HEAVILY PROGRESSIVE BUT WITH NATIONALIZATION OF COMMERCIAL FARMS AND

THEIR TRANSFER INTO STATE FARMS, UPPER BRACKETS WILL AFFECT
VERY FEW PRIVATE FARMERS. IT IS UNCLEAR AT PRESENT WHETHER
THE STATE FARMES WILL PAY AGRIULTURRAL INCOME TAX,
CORPORATION INCOME TAX OR BE COVERED UNDER SPECIAL PROVISIONS.
EFFICIENCY OF FARMERS' ASSOCIATIONS AS TAX COLLECTION
AGENTS REMAINS UNCERTAIN. THE TAXES ARE EFFECTIVE FOR
ETHIOPIAN FISCAL YEAR 1968 WHICH CLOSELY CORRESPONDS TO
US FISCAL YEAR 1976. AS THIS FISCAL YEAR IS ALREADY NEARLY
SIX MONTHS ALONG, IT IS XATE TO ANNOUNCE TAXES TO COVER THE CURRENT
PERIOD. ALSO UNSPECIFIED IN THE PRESS REPORTS OF THE NEW
PROCLAMATION IS ANY DISPOSITION OF THE TAX REVENUES
GENERATED UNDER THE NEW TAX PROVISIONS. THERE IS NO
INDICATION THAT ANY SHARE, OTHER THAN THE 2 PERCENT COLLECTION
FEE, WILL REMAIN WITH THE ASSOCIATIONS OR LOCAL GOVERNMENT
AGENCIES. REVENUE SHARING AS A MEANS TO DECENTRALIZATION HAD
BEEN UNDER CONSIDERATION IN THE EPMG MINISTRIES BUT IN THE
ABSENCE OF ANY CONTRARY EVIDENCE, WE ASSUME THAT ALL TAX
REVENUES WILL FLOW TO ADDIS. WHEN EMBASSY RECEIVES TEXT OF
PROCLAMATION, FURTHER REPORT WILL BE SUBMITTED.
HUMMEL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TAX LAW, NATIONALIZATION, TAX RATES, LAND REFORMS
Control Number: n/a
Copy: SINGLE
Draft Date: 15 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ADDIS00531
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760021-0272
From: ADDIS ABABA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760156/aaaabxhg.tel
Line Count: 135
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AF
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: mendozsm
Review Comment: n/a
Review Content Flags:
Review Date: 28 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28 JUL 2004 by castelsl>; APPROVED <18 AUG 2004 by mendozsm>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ETHIOPIAN GOVERNMENT ISSUE AGRICULTURAL TAX PROCLAMATION
TAGS: EAGR, EFIN, ET
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006